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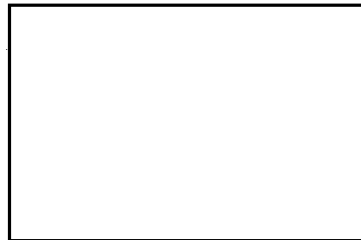
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NATIONAL INTELLIGENCE DAILY CABLE

Thursday August 4, 1977

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National Intelligence Daily Cable for Thursday August 4, 1977.

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The NID Cable is for the purpose of informing senior US officials.

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USSR

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SYRIA: Strengthening Ties with PLO

25X1 [] //Syrian President Asad's recent efforts to strengthen his ties with the Palestine Liberation Organization seem designed both to protect his domestic flank and to bolster his negotiating hand with Secretary Vance.// On the eve of the Secretary's visit, the government-controlled press summed up Syria's "minimum requirement" for peace, reemphasizing Asad's insistence on Palestinian representation at Geneva or in "any negotiating framework." The press has strongly implied that Syria is not prepared to compromise on this issue as the price for a resumption of the Geneva peace conference.

25X1 [] The media have cautioned the public not to expect too much from the Secretary's visit and have sought to play up the recent closer coordination between Syria and the PLO. Asad held well-publicized talks with Yasir Arafat and other Palestinian leaders the day before the Secretary arrived.

25X1 [] The reputable "Al-Anwar" newspaper in Beirut reported yesterday that Syria and the PLO have reached a written agreement calling for an independent Palestinian delegation at Geneva and an independent Palestinian state on the West Bank and Gaza strip. According to "Al-Anwar," the Syrians and the PLO ruled out links between such a Palestinian state and Jordan unless the two states were part of a larger confederation with Syria.

25X1 [] //There has been previous press speculation that Asad agreed to support independent Palestinian participation at Geneva in exchange for PLO cooperation in implementing the Cairo accords regulating the Palestinian presence in Lebanon.

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25X1 [] //Both Asad and Arafat, however, probably have reached some understanding in an effort to strengthen their positions in anticipation of renewed US diplomatic efforts to promote peace talks in Geneva. Asad may have decided that closer coordination with the PLO was necessary in an effort to forestall what he saw as US wavering on the issues. At the same time, he probably thought he had to protect his domestic position in case current diplomatic efforts reach an impasse.//

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ISRAEL: Coalition Talks Snarled

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[] Coalition negotiations in Israel between the Begin government and the Democratic Movement for Change, which were resumed early last month, have again stalled over many of the same issues that led to the original breakdown in talks in June. Serious differences persist within the Democratic Movement over the wisdom of joining Begin's right-wing coalition. A new breakdown in the negotiations probably would not have much impact on the government's position on Arab-Israeli issues.

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[] Following a negotiating session earlier this week, Democratic Movement leader Yigael Yadin rated his party's chances of entering the government as "only 50 percent." He emphasized that he could not recommend that the Democratic Movement join the government unless there is significant progress in subsequent meetings. The party's governing council was scheduled to discuss the issue yesterday.

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[] Begin undoubtedly would welcome the Democratic Movement's participation in his government, both to strengthen its narrow parliamentary majority and to give the appearance at least of broadening support for his approach to peace negotiations with the Arabs. His unwillingness thus far to pay more than a token price for the Democratic Movement's inclusion, however, indicates that he does not regard its support as essential.

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[] A breakdown in their coalition talks probably would have little immediate effect either on Begin's prospects for remaining in office or on the position of his government toward key Arab-Israeli issues. Begin would still retain his largely uncontested control over a small but tightly knit coalition made up of conservative parties that share compatible views on most major foreign and domestic questions.

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[] On substantive issues, Yadin's call for electoral changes that would favor direct election of parliamentary deputies--in contrast to the present system of national party electoral lists--continues to encounter strong opposition from Begin's senior coalition partner, the National Religious Party.

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[] The National Religious Party has long feared that Yadin's plan would benefit only the larger, wealthier parties and damage its own prospects in national elections. Begin's attempts to bridge the gap between Yadin's demand for a large number of electoral districts and the National Religious Party's willingness to accept only a small number have so far proven unsuccessful.

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[] Faced with the National Religious Party's opposition on this point, many Democratic Movement leaders suspect that Begin may be hedging on his earlier promise that the National Religious Party would not be given veto power over future electoral legislation.

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[] Similarly, Begin appears to have qualified his earlier commitment to the Democratic Movement concerning the establishment of new Israeli settlements in the occupied territories. In their earlier talks, Begin reportedly promised that any Democratic Movement minister could have settlement plans referred to the foreign affairs and security committee of parliament, which includes several Democratic Movement representatives.

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[] Last week, however, Begin announced that a government committee headed by Agriculture Minister Ariel Sharon, which is dominated by hard-liners in Likud and the National Religious Party, would have jurisdiction over settlement affairs.

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[] Impasses also appear to have developed over the distribution of several senior cabinet posts. The Democratic Movement, which made reduction in the number of cabinet positions a major plank in its campaign platform, continues to insist that it be given control of a combined health and social welfare ministry. The health portfolio, however, is now held by a senior Likud official and Begin has so far been unwilling to reverse this appointment.

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[] Similarly, Yadin's demand that a Democratic Movement figure be put in charge of the police within the Interior Ministry, which is controlled by the National Religious Party, has been rejected. Yadin himself reportedly remains uncertain that he would be given significant authority as deputy prime minister if his party entered the cabinet.

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[] Finally, a new dispute has emerged concerning discipline among coalition members in voting on religious questions. Yadin says he had been promised that his party would be free to vote its conscience on religious matters, even on no-confidence motions in parliament. The leader of the National Religious Party, however, has flatly denied that he had agreed to this stipulation.

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[] Frustrated with the deadlock in coalition talks, Amnon Rubenstein, the number-two man in the Democratic Movement, announced earlier this week that he was withdrawing from the negotiations and that he would refuse to accept a cabinet post even if his party joined the government. Rubenstein, the former leader of a small liberal movement, has never been happy with the possibility of joining Begin's government and in recent weeks has become the rallying point for others within the Democratic Movement who share his reluctance.

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[] This opposition clearly has reduced Yadin's capacity to bargain with Begin. It has made Yadin less willing to compromise on his key demands for fear of provoking defections from the Democratic Movement and perhaps even causing the break-up of the party. []

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US-USSR: Pravda on Relations

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[] In a major Pravda article yesterday, Georgiy Arbatov, the head of the USA Institute, blamed the Carter administration for the current impasse in Soviet-American relations. Arbatov, the USSR's leading academic expert on the US, accused Washington of placing barriers in the way of arms control and economic relations and implied that the US was doing nothing to address these problems. It appears that Moscow, after examining President Carter's remarks in Charleston two weeks ago, has decided there is little reason for particular optimism in its dealings with Washington.

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[] The Soviets had initially reacted mildly to the President's Charleston speech and also called for "reserve and patience" in discussing differences between Moscow and Washington. An editorial in the foreign affairs weekly *New Times* even raised the possibility that Moscow was considering greater moderation in relations with the Carter administration.

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[] Following the discussions in Geneva in May between Secretary Vance and Foreign Minister Gromyko, the Soviet press had been painting a highly pessimistic picture of the President's policies. Arbatov's article--the most authoritative Soviet response to the President's speech--is another example of Soviet pessimism.

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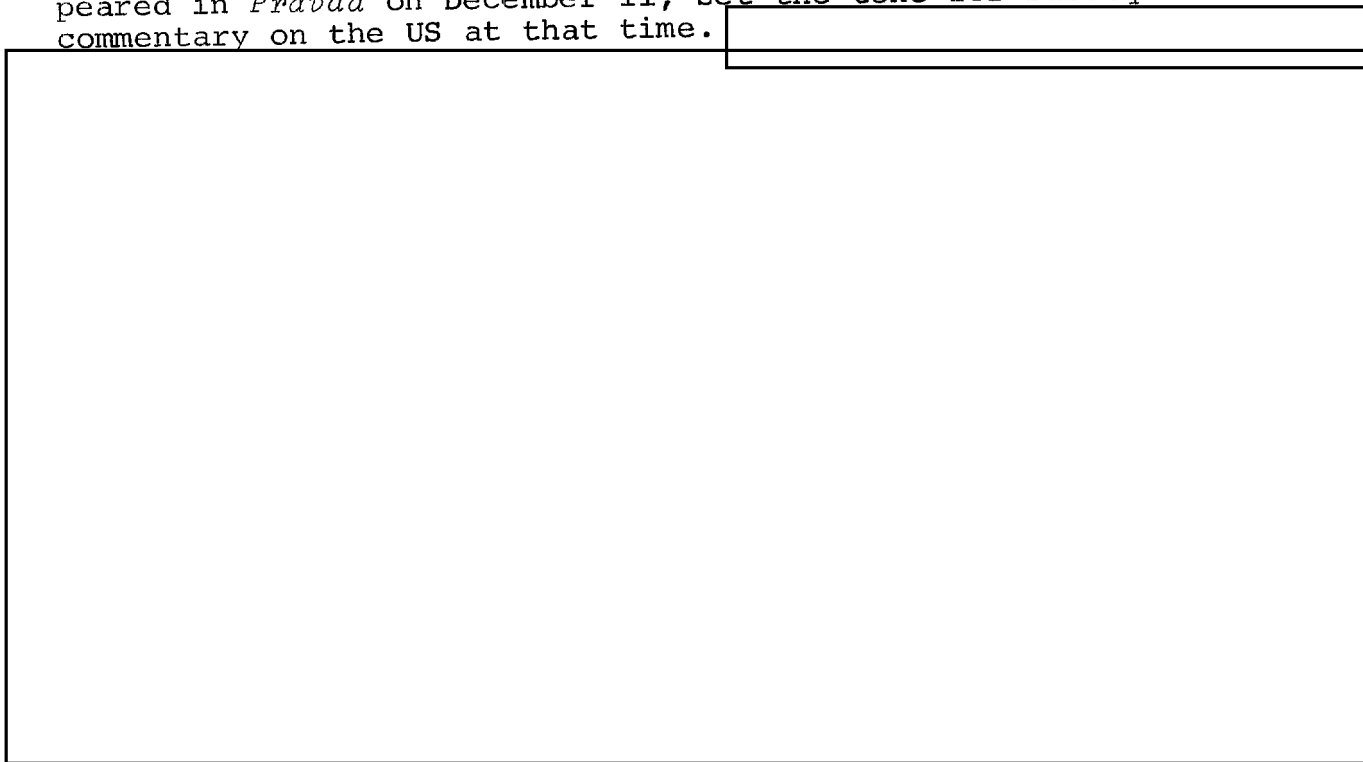
[] Arbatov charges that US efforts to "emasculate" detente have nothing to do with the "lack of experience" of a new administration or the "peculiarities" of the President's political style, but are a result of Washington's attempt to negotiate "from a position of strength" with the USSR. This factor, according to Arbatov, explains the change for the worse in the political atmosphere between the US and USSR.

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[] Arbatov's article strongly suggests that Moscow will now return to more critical attacks on the US. His skeptical assessment of Soviet-American relations last winter, which appeared in *Pravda* on December 11, set the tone for subsequent commentary on the US at that time.

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ASEAN: Second Summit Conference

[redacted] The second summit meeting of the Association of Southeast Asian Nations opens today in Kaula Lumpur with a definite emphasis on the steady, if modest, progress member states have made toward establishing a framework for economic cooperation. The pace and scope of regional economic integration in ASEAN remain slow, however, and the outcome of discussions after the meeting with industrial nations in the area will for the most part continue to depend on balancing individual national priorities with collective regional concerns.

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[redacted] For the first time, leaders of the ASEAN member states--Indonesia, Malaysia, the Philippines, Thailand, and Singapore--will meet informally with the leaders of Australia, New Zealand, and Japan. Attention will focus on post-summit ASEAN consultations with Japanese Prime Minister Fukuda. US-ASEAN economic consultations will be held in Manila in early September.

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25X1 [] ASEAN leaders hope that Japan will meet their requests for financial and technical assistance. ASEAN sees Japan as its best and most economic source of high-quality consumer and industrial products and as the primary pipeline for the technology and organizational skills needed for its industrial development plans.

25X1 [] For its part, Tokyo is taking an active interest in cultivating closer ties with ASEAN. The Japanese are pleased with ASEAN's deliberate effort to avoid antagonizing Vietnam. They have also gradually come to view ASEAN's emphasis on expanding economic cooperation as directly affecting their own substantial stake in the region.

25X1 [] Since the first summit conference--at Bali, Indonesia, in February 1976--ASEAN has established, in response to a Japanese initiative, the Japan-ASEAN forum, a permanent venue for economic contacts between ASEAN members and Japan. ASEAN members have focused on the need to obtain Japanese concessions on trade and aid as their price for wider collaboration.

25X1 [] In this regard, Fukuda is expected to unveil a variety of Japanese aid concessions and to promise to consider future adjustments in the terms of trade. Fukuda will meet with ASEAN leaders both after the summit conference and on a Southeast Asian tour later this month.

25X1 [] The Japanese leader is expected to offer up to \$1 billion for financing five major ASEAN industrial projects pending completion of feasibility surveys and market studies. The projects include urea plants for Malaysia and Indonesia, a diesel engine production facility for Singapore, fertilizer plants for the Philippines, and a soda ash production facility for Thailand.

25X1 [] Fukuda is also expected to offer grants for cultural exchanges and medical facilities. He may raise the possibility of assisting ASEAN's exports through an expanded general system of preferences and a global liberalization program for tropical products but would probably go no further than agreeing to consider an export stabilization plan for Southeast Asia's primary products.

25X1 [] Japan would not want to agree to any arrangements that would deviate significantly from its overall pattern of economic relations elsewhere in the world or undercut its bargaining position in multilateral trade negotiations.

25X1 [] ASEAN policy toward Australia and New Zealand is directed toward encouraging them to be more sympathetic to the interests of their neighbors than to those of their industrial allies in other parts of the world.

25X1 [] Australian Prime Minister Fraser will probably do little more than attempt to justify and explain Australia's present trading policies, coupling this with vague assurances that tariff reductions might be possible once his country's economy improves.

25X1 [] New Zealand Prime Minister Muldoon can be expected to offer sympathetic support to ASEAN's objectives and continued access to New Zealand's limited markets for ASEAN products.

25X1 [] Dramatizing the tenth anniversary of the organization, President Marcos of the Philippines may renounce Manila's claim to the East Malaysian state of Sabah. This would eliminate a long-standing irritant between the Philippines and Malaysia and serve to highlight ASEAN's contribution to muting antagonism between two of its member states. []

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CHINA: Huang Ko-cheng Rehabilitated

[] Huang Ko-cheng, a former Chinese vice minister of defense and chief of staff, reappeared at the celebrations in Peking on August 1 marking the 50th anniversary of the Chinese army. Huang was purged in 1959 along with former defense minister Peng Te-huai, who was accused of being pro-Soviet. Now in his mid-70s, Huang was listed only among those who attended the celebrations and apparently has no official job.

[] Huang made a brief comeback in 1965 as a vice governor of Shansi Province, but during the Cultural Revolution he disappeared again, under Red Guard criticism.

[] His past close links with Peng Te-huai could make his rehabilitation an especially delicate issue. Moscow could conceivably read his return as signaling a re-evaluation of Peking's policies toward the Soviet Union. Such a reading is unlikely, however, because Peking continues to criticize Peng Te-huai and to take a strong anti-Soviet line. An authoritative editorial on August 1 again castigated the USSR for its military activities around the world.

[] Huang's second rehabilitation comes at a time when the regime is praising prominent old military leaders, including deceased marshals Ho Lung and Chen I. Huang evidently numbers among this group, which the regime now thinks was wrongfully purged by overzealous party "leftists." In the late 1950s, Huang had a reputation for being a strong disciplinarian and for favoring military modernization, two policies that are now receiving strong support. []

TURKEY: Payments Situation Worsens

[] Turkey's coalition government, which won a vote of confidence on its overall program last Monday, faces an increasingly dismal economic picture. The foreign exchange shortage of the last few months has worsened and sources of financing are drying up. Export industries are beginning to experience production slowdowns because of the scarcity of imported raw materials. The announcement on Wednesday of small exchange rate realignments of the Turkish lira against several currencies will have no significant impact on the situation.

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[] Since March, Turkey's Central Bank has been conserving its limited foreign exchange by refusing to authorize foreign exchange transfers for all but the highest priority imports, such as oil and military goods. The backlog of transfer requests now stands at \$1.5 billion, of which about half is for imports already in the country.

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[] As a result, foreign suppliers are holding up shipments of badly needed goods, including steel, chemicals, and food. With foreign exchange reserves at a low level and obligations mounting, the Central Bank is depending on day-to-day receipts of foreign exchange to pay essential bills. These earnings will begin to suffer as export industries slow production.

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[] The shortage of foreign exchange also has slowed repayment of foreigners' deposits in Turkish banks, which in turn has discouraged new deposits. In June, deposits of foreign exchange showed a net decline for the first time in two years. Such deposits have been a major source of financing for the large current-account deficits of the last few years.

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[] Prime Minister Demirel's coalition program was purposely vague in order to win the necessary vote of confidence. Although calling for high growth rates and a reduction in unemployment, the program does not explain how these goals will be achieved. In particular, no mention is made of sources from which necessary foreign financing would be obtained.

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[] The government will have to outline specific steps soon if Turkey is to obtain new foreign credits. All major sources of funds already have been exhausted, and no new loan extensions are likely until Ankara approaches the International Monetary Fund with a request for assistance. While the Fund probably would require belt-tightening economic measures that would be extremely unpopular in Turkey, the alternative would be an even more severe economic slowdown and higher unemployment.

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PORTUGAL: New Communist Strategy

25X1 [] Portuguese Communist Party leader Cunhal's call earlier this week for the resignation of the Socialist minority government indicates that the Communists for the time being have given up trying to coax the Socialists into a "majority of the left." The new Communist strategy probably will not bring down the Socialists, but it will enable the Communists to save face with militants who might have been tempted to defect to more violent parties on the far left. The Communists are likely to make some trouble in the streets, but they probably realize they would only further weaken their position if they attempted to take on the security forces.

25X1 [] Cunhal, speaking for the party's central committee, also demanded the dissolution of the legislative assembly, the suspension of legislation recently passed by the assembly, and the holding of a general election within 90 days. The Communists say the Soares government has reneged on its campaign promises and has become a tool of the right.

25X1 [] The Communist leader did not say whether the party intended to bring a motion of censure before the legislature. The assembly last week adjourned an extended summer session, but plans a brief session next Tuesday to wrap up details of legislation that has been approved in principle.

25X1 [] The Communists are trying to make up for recent setbacks dealt them by the Socialists in legislation curtailing Communist influence in agrarian reform and worker control. Communist leaders probably realize that their demands are unlikely to be heeded, but are anxious to signal a definite policy change to save face with the party membership and head off defections to violence-prone far-left groups.

25X1 [] //The Communists will probably engage in street demonstrations and some violence, but they are unlikely to encourage widespread conflict because they are no match for the security forces. Isolated clashes would provide the Communists with enough propaganda to retain the loyalty of party activists without forcing an all-out confrontation with the authorities.//

25X1 [] Representatives of the Socialists, the centrist Social Democrats, and the conservative Center Democrats have attacked Cunhal's announcement as a desperate maneuver that proves the Communists are unable to function in a democratic society. At the same time, the Center Democrats noted that the Communist position makes it easier to bring a censure vote against the Soares government and reminded the Socialists that they would be better off in a coalition government with parties to their right. 25X1 []

BRIEF

USSR:

25X1 [] Ambassador Vorontsov, the chief Soviet delegate to the preparatory meeting in Belgrade on European security and cooperation, yesterday presented a compromise proposal, which includes concessions to the West, on the framework of the main review conference in the fall. The preparatory meeting may be able to adopt a final document and close tomorrow.

25X1 [] The Soviets accepted the Spanish compromise formula submitted last weekend as the basis for an agreement. This agreement sets October 4 as an opening date for the fall conference and December 16 as a closing date for the work of the commissions charged with reviewing compliance with the 1975 Helsinki Final Act. It stipulates that if the main meeting has not finished its work on a final document by December 22, it would continue for another four weeks from mid-January to mid-February.

25X1 [] The Soviet proposal submitted yesterday further blurs the crucial issue of a firm closing dates by providing for the possibility of forming drafting groups to replace the commissions and by requiring consensus to close the main meeting. 25X1 []

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